

Message Text

PAGE 01 STATE 229886

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DRAFTED BY ARA/AND/E - MR. ALLITTO:LEE

APPROVED BY ARA - WHLUERS

ARA/AND - FJDEVINE

L - SSCHWEBEL

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TO AMEMBASSY QUITO NIACT IMMEDIATE

C O N F I D E N T I A L STATE 229886

STADIS////////////////////////////////////

LIMDIS- FOR THE AMBASSADOR

E.O. 11652: GDS

TAGS: ENRG, PFOR

SUBJECT: GOVERNMENT OF ECUADOR - GULF OIL CORP DISPUTE

1. BELOW IS THE VERBATIM TEXT OF THE DRAFT GULF PROPOSALS CONTEMPLATED FOR PRESENTATION TO THE SUPREME COUNCIL ON MONDAY, SEPTEMBER 20, SUBJECT TO CHANGES WHICH MAY BE INTRODUCED BETWEEN NOW AND THEN. ANY COMMENTS OR SUGGESTIONS WE MAY CARE TO OFFER MUST BE SUBMITTED BY EARLY FRIDAY AFTERNOON, SEPTEMBER 17. THE DEPARTMENT IS STUDYING THE TEXT, AND IS CONSIDERING WHETHER OR NOT TO OFFER SUGGESTION IF DEPARTMENT DECIDES TO OFFER COMMENTS OR SUGGESTIONS TO GULF, IT WOULD WISH SIMULTANEOUSLY TO REFLECT YOUR THOUGHTS, WHICH, THEREFORE, MUST BE HERE BY NOON FRIDAY. ALSO, THE DEPARTMENT WANTS TO POINT OUT THAT GULF PRINCIPALS HERE AND GULF OFFICIALS IN ECUADOR ARE NOT REPEAT NOT AWARE THAT THIS TEXT IS BEING SENT TO YOU TODAY. DEPARTMENT'S GULF SOURCE HAS AGREED TO OUR SENDING THIS TO CONFIDENTIAL

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YOU, BUT TO PROTECT THAT SOURCE THE DEPARTMENT DOES NOT WANT THIS REVEALED TO ANYONE. THE TEXT FOLLOWS:

2. QUOTE: VICE ADMIRAL ALFREDO POVEDA URBANO, GENERAL

GUILLERMO DURAN ARCENTALES, BRIGADIER GENERAL LUIS LEORO FRANCO, MR. PRESIDENT AND MEMBERS OF THE SUPREME COUNCIL OF GOVERNMENT:

IN REFERENCE TO OUR LETTER OF 31 AUGUST 1976 AND IN THE INTEREST OF CARRYING FORWARD THE PROPOSED NEGOTIATIONS OUT LINED THEREIN, AND AFTER TAKING INTO ACCOUNT THE NOTICE OF CADUCITY WHICH WAS CONTAINED IN THE LETTER ADDRESSED TO US BY THE MINISTER OF NATURAL AND ENERGY RESOURCES, ING. CORONEL RENE VARGAS PAZZOS, WHICH WAS RECEIVED ON 1 SEPTEMBER 1976, WE SHOULD LIKE TO PROPOSE FOR YOUR CONSIDERATION AND DISCUSSION WITH US THE FOLLOWING:

A. ECUADOREAN GULF OIL COMPANY WILL DISMISS THE PRESENT LAWSUIT AGAINST ATLANTIC RICHFIELD COMPANY IN EXCHANGE FOR A MUTUALLY SATISFACTORY SETTLEMENT WHICH ASCERTAINS THE QUANTITY OF CRUDE OIL IN CONTROVERSY AND FIXES A PRICE COVERING COSTS THEREOF, TOGETHER WITH APPLICABLE TAXES, IF ANY.

B. WE REQUEST THAT THE GOVERNMENT OF ECUADOR CONSIDER AN ARRANGEMENT WHEREBY CADUCITY WOULD BE POSTPONED, ECUADOREAN GULF OIL COMPANY WOULD RESUME MAKING DEPOSITS IN THE NORMAL MANNER AND WHICH WOULD ALSO CONSERVE THE RESPECTIVE ESSENTIAL INTERESTS OF THE PARTIES. A PROPOSAL AS TO HOW THIS MIGHT BE DONE APPEARS IN ANNEX NO 1 OF THIS LETTER.

C. INSOFAR AS FUTURE RELATIONSHIPS ARE CONCERNED, ECUADOREAN GULF OIL COMPANY IS WILLING TO CONTINUE ITS PARTICIPATION IN THE EXPLORATION AND PRODUCTION OPERATION IN ECUADOR PROVIDING THE EXISTING ARRANGEMENT BE RESTRUCTURED SO THAT ECUADOREAN GULF IS ASSURED A REASONABLY PROFITABLE BUSINESS AND THAT FULL AND COMPLETE SETTLEMENT OF ALL OUTSTANDING ISSUES IS ACHIEVED. IF, ON THE OTHER HAND THIS SUGGESTION IS NOT ACCEPTABLE TO THE ECUADOREAN GOVERNMENT, THEN ECUADOREAN GULF OIL COMPANY WOULD BE WILLING TO TRANSFER OR ASSIGN TO THE NATION ALL INTERESTS HELD BY IT
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UNDER THE CONTRACT OF AUGUST 6, 1973, INCLUDING THE CONTRACT AREA, PLANT, EQUIPMENT, BETTERMENTS, TRANSECADOREAN PIPELINE AND ALL INTERESTS HELD BY PETROLEOS GULF DEL ECUADOR (COMPANY) UNDER CONTRACT OF 25 AUGUST 1960 AND IN ITS REFINERY AT LA LIBERTAD.

IN GENERAL, TERMS AND CONDITIONS WOULD PROVIDE FOR APPROPRIATE TRANSFER, PAYMENTS, FINANCING, A CONTRACT FOR THE FUTURE PURCHASE OF ORIENTE CRUDE OIL AND FINAL SETTLEMENT OF ALL OBLIGATIONS OF THE RESPECTIVE PARTIES. DETAILS OF THIS LATTER PROPOSAL APPEAR IN ANNEX NO. 2.

WE REQUEST THE HONOR OF MEETING WITH YOU AT YOUR EARLIEST

CONVENIENCE TO RECEIVE YOUR VIEW WITH RESPECT TO THESE MATTERS. ECUADOREAN GULF OIL COMPANY.

ANNEX NO. 1

ON JUNE 21, 1976, ECUADORIAN GULF OIL COMPANY BEGAN PLACING AND CONTINUES TO PLACE ITS INCAUTATION DEPOSITS FOR PAST CRUDE OIL LIFTINGS AS THEY BECOME DUE INTO A SPECIAL ACCOUNT. THIS POSTPONEMENT OF DEPOSITS ANTICIPATES SETTLEMENT OF THE UNRESOLVED PROBLEMS BETWEEN THE GOVERNMENT AND ECUADORIAN GULF.

AT THE REQUEST OF THE CONSEJO SUPREMO DEPOSITS FOR ALL NEW LIFTINGS, BEGINNING WITH THE SHIP TSANGARIS ON AUG 25 1976, HAVE BEEN MADE TO THE AGENT BANK OF THE CENTRAL BANK COINCIDENT WITH THE SAILING OF EACH CARGO. THIS PROCEDURE IS AN INTERIM ARRANGEMENT BY WHICH NORMAL LIFTINGS COULD CONTINUE WHILE AN ATTEMPT IS MADE TO SETTLE DIFFERENCES. UNDER THE FOREIGN EXCHANGE CONTROL SYSTEM HOWEVER, THESE DEPOSITS ARE NOT DUE ON THE DATE OF LIFTING, THUS THEY REPRESENT DEPOSITS MADE IN ADVANCE OF THEIR DUE DATE.

IN ORDER TO REACH A MUTUAL UNDERSTANDING WHICH WILL ALLOW ECUADORIAN GULF TO RESUME MAKING ITS DEPOSITS IN THE USUALLY ACCEPTED WAY (THROUGH THE FOREIGN EXCHANGE SYSTEM WHEN THOSE DEPOSITS BECOME DUE) WE PROPOSE THAT THE AMOUNT REPRESENTED BY THE ADVANCE DEPOSITS MENTIONED
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ABOVE BE CREDITED AGAINST THE DEPOSITS PRESENTLY HELD IN THE SPECIAL ACCOUNT THUS REDUCING THE AMOUNT IN ARREARS BE APPROXIMATELY ONE-HALF. THE DIFFERENCE BETWEEN THE PRESE BALANCE IN THE SPECIAL ACCOUNT AND THE ADVANCE DEPOSITS MENTIONED ABOVE WOULD THEN BECOME THE NEW BALANCE IN THE SPECIAL ACCOUNT WHICH WOULD BE APPLIED TOWARD THE PURCHASE PRICE OF ECUADORIAN GULF'S ASSETS AND RECEIVABLES WHEN THE PARTIES IMPLEMENT THE FINAL AGREEMENT.

ECUADORIAN GULF WOULD AGREE THEN TO RESUME MAKING ITS DEPOSITS INTO THE FOREIGN EXCHANGE CONTROL SYSTEM BEGINNING WITH THE NEXT DEPOSIT WHICH IS DUE SEPTEMBER 27, 1976. EACH SUBSEQUENT DEPOSIT WILL BE MADE AS IT BECOMES DUE. THE INCAUTATION PRICE OF CARGOES LIFTED BETWEEN AUGUST 25 1976 AND THE PRESENT WOULD UNDER THIS PROPOSAL BE DEPOSIT ON THEIR RESPECTIVE DUE DATES ACCORDING TO THE PROVISIONS OF PRESENT REGULATIONS GOVERNING SUCH DEPOSITS.

THIS PROPOSAL WOULD ACCOMPLISH SEVERAL THINGS:

(1) RESUMPTION BY ECUADORIAN GULF OF ITS DEPOSITS AS THEY BECOME DUE.

(2) IMMEDIATE REDUCTION OF THE BALANCE IN THE SPECIAL ACCOUNT BY APPROXIMATELY ONE-HALF,
(3) CONTINUATION OF LIFTINGS BY ECUADORIAN GULF IN A ROUTINE MANNER, AND

(4) THE BALANCE OF THE SPECIAL ACCOUNT WOULD BE COMMENSURATE WITH UNPAID OBLIGATIONS CURRENTLY OWED BY CEPE AND THE GOVERNMENT OF ECUADOR TO THE COMPANY.

ANNEX NO. 2

1. THE INTERESTS WHICH WOULD BE TRANSFERRED OR ASSIGNED TO THE NATION ARE AS FOLLOWS:

A. ALL INTERESTS HELD BY ECUADORIAN GULF OIL COMPANY (COMPANY) UNDER THE CONTRACT SIGNED ON AUGUST 6, 1973 PURSUANT TO DECREE 925, PUBLISHED IN REGISTOR OFICIAL NO. 370, AUGUST 16, 1973, INCLUDING THE FOLLOWING:
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(A) THE COMPANY'S INTEREST IN THE CONTRACT AREA, ALL WELLS AND PRODUCING FACILITIES WITHIN THE CONTRACT AREA, OTHER PLANT, EQUIPMENT, BETTERMENTS AND DEVELOPMENT WHICH HAVE BEEN INSTALLED FOR THE OPERATIONS WITHIN THE CONTRACT AREA.

(B) THE COMPANY'S INTEREST IN THE TRANS ECUADORIAN PIPELINE SYSTEM AND THE TERMINAL FACILITIES AT BALAO.

(C) THE COMPANY'S INTEREST IN THE INVENTORY OF MATERIALS AND SUPPLIES WHICH HAVE BEEN ACQUIRED FOR THE OPERATION OF THE CONTRACT AREA AND THE PIPELINE SYSTEM.

(D) THE COMPANY'S SHARE OF THE CRUDE OIL IN LINES AND TANKS IN THE CONTRACT AREA, THE TRANS ECUADORIAN PIPELINE SYSTEM AND IN THE BALAO TERMINAL.

B. ALL INTERESTS HELD BY PETROLEOS GULF DEL ECUADOR (COMPANY) UNDER CONTRACT OF 25 AUGUST 1960 AND IN ITS REFINERY AT LA LIBERTAD INCLUDING:

(A) ALL PHYSICAL PLANT FACILITIES, EQUIPMENT AND BETTERMENTS UTILIZED UNDER THE CONTRACT AND BY THE REFINERY.

(B) INVENTORY OF MATERIALS AND SUPPLIES.

(C) INVENTORY OF CRUDE OIL AND PRODUCTS IN LINES AND TANKS.

2. COMPANY WILL TRANSFER OR ASSIGN TO THE NATION ALL ITS INTERESTS IN THE ABOVE FOR AN AMOUNT TO BE PAID BY THE

ECUADORIAN GOVERNMENT TO COMPANY WHICH SHALL INCLUDE THE FOLLOWING CONCEPTS:

A. THE NET BOOK VALUE AS RECORDED ON COMPANY'S BOOKS OF THE AMOUNTS INVESTED IN THE ABOVE.

B. COMPENSATION FOR LOSS OF PROFITS RESULTING FROM VIOLATION OF THE CONTRACT PERIOD.

C. SATISFACTION OF ALL SUMS OWED BY CEPE FOR THE SALE OF CONFIDENTIAL

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CRUDE OIL AND PRODUCTS FOR LOCAL CONSUMPTION, PIPELINE CHARGES FOR TRANSPORTING CEPE CRUDE FROM THE CONTRACT AREA, CONTRACT AREA OPERATING COSTS, THE UNPAID BALANCE FOR THE PURCHASE OF A 25 PERCENT INTEREST IN THE CONTRACT AREA AND PRODUCING FACILITIES, REFINERY EXPANSION, AND AN OTHER UNSETTLED ACCOUNTS.

D. REIMBURSEMENT BY THE ECUADORIAN GOVERNMENT TO COMPANY FOR THE AMOUNTS OVERRETAINED FROM DEPOSITS MADE BY COMPANY INTO THE FOREIGN EXCHANGE CONTROL SYSTEM AND ANY OTHER INDEBTEDNESS.

E. SATISFACTION OF COMPANY'S OBLIGATIONS.

F. AN AGREEMENT WHICH MAKES FINAL SETTLEMENT OF ALL CLAIMS OF THE PARTIES.

3. COMPANY WILL LEND ITS BEST EFFORTS TO ASSIST THE GOVERNMENT OF ECUADOR TO OBTAIN FINANCING UPON REASONABLE TERMS. COMPANY SUGGESTS CONSIDERATION BE GIVEN TO THESE ALTERNATIVES:

A. SALE OF FUTURE OIL ARRANGEMENT WHEREBY FINANCING AGENCIES WOULD ADVANCE FUNDS FOR PURPOSE OF PURCHASE-SALE OF INTERESTS DESCRIBED ABOVE AND RECOVER THESE ADVANCES PLUS INTEREST FROM FUTURE OIL (WORD NOT READABLE).

B. CONVENTIONAL LOAN. ARRANGEMENT WHEREBY FUNDS ARE BORROWED FOR THE PURPOSE OF PURCHASE-SALE AND LENDERS RECOVER PRINCIPAL AND INTEREST OUT OF DEPOSIT OF A PART OF THE SALES PRICE WITH LENDER'S AGENT. THE AMOUNT TO BE BORROWED COULD BE REDUCED BY APPLYING UNDEPOSITED PROCEED OF PAST SALES TO THE PURCHASE-SALE.

C. INSTALLMENT PAYMENTS MADE BY COMPANY FROM FUTURE SALE OF ORIENTE CRUDE OIL.

D. PAYMENT VIA DISCOUNT ON CRUDE OIL PURCHASED BY THE COMPANY IN VOLUMES AND OVER A PERIOD TO BE AGREED UPON.

4. IN RELATION TO PARAGRAPH NO. 3 ABOVE, THE COMPANY

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WOULD ENTER INTO A CONTRACT FOR THE PURCHASE OF ORIENTE
CRUDE OIL. A PRICING FORMULA FOR SUCH PURCHASE WOULD BE
AGREED UPON BASED UPON AN OPEC MARKER CRUDE OIL ADJUSTED
FOR QUALITY AND TRANSPORTATION. END QUOTE. HABIB

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APPROVED BY: ARA:JFKEANE
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TO AMEMBASSY MANAGUA NIACT IMMEDIATE

C O N F I D E N T I A L STATE 229886

STADIS////////////////////////////////////
LIMDIS, FOR SHLAUDEMANN ONLY FROM KEANE

FOLLOWING REPEAT STATE 229886 ACTION QUITO SEP 6

QUOTE: C O N F I D E N T I A L STATE 229886

STADIS
LIMDIS- FOR THE AMBASSADOR

E.O. 11652: GDS

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AFTERNOON, SEPTEMBER 17. THE DEPARTMENT IS STUDYING THE
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IF DEPARTMENT DECIDES TO OFFER COMMENTS OR SUGGESTIONS
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ALL OUTSTANDING ISSUES IS ACHIEVED. IF, ON THE OTHER HAND THIS SUGGESTION IS NOT ACCEPTABLE TO THE ECUADOREAN GOVERNMENT, THEN ECUADOREAN GULF OIL COMPANY WOULD BE WILLING TO TRANSFER OR ASSIGN TO THE NATION ALL INTERESTS HELD BY IT

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C. SATISFACTION OF ALL SUMS OWED BY CEPE FOR THE SALE OF CRUDE OIL AND PRODUCTS FOR LOCAL CONSUMPTION, PIPELINE CHARGES FOR TRANSPORTING CEPE CRUDE FROM THE CONTRACT AREA, CONTRACT AREA OPERATING COSTS, THE UNPAID BALANCE FOR THE PURCHASE OF A 25 PERCENT INTEREST IN THE CONTRACT AREA AND PRODUCING FACILITIES, REFINERY EXPANSION, AND AN OTHER UNSETTLED ACCOUNTS.

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C. INSTALLMENT PAYMENTS MADE BY COMPANY FROM FUTURE SALE OF ORIENTE CRUDE OIL.

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D. PAYMENT VIA DISCOUNT ON CRUDE OIL PURCHASED BY THE COMPANY IN VOLUMES AND OVER A PERIOD TO BE AGREED UPON.

4. IN RELATION TO PARAGRAPH NO. 3 ABOVE, THE COMPANY WOULD ENTER INTO A CONTRACT FOR THE PURCHASE OF ORIENTE CRUDE OIL. A PRICING FORMULA FOR SUCH PURCHASE WOULD BE AGREED UPON BASED UPON AN OPEC MARKER CRUDE OIL ADJUSTED FOR QUALITY AND TRANSPORTATION. END QUOTE. HABIB UNQTE ROBINSON

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04 MAY 2006

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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT OF ECUADOR - GULF OIL CORP DISPUTE
TAGS: ENRG, PFOR, EINV, US, EC, GULF OIL CO
To: QUITO NIACT
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006